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Letter dated 10 March 2005 from the Secretary-General addressed to the President of the Security Council

I have the honour to convey the attached communication, dated 8 March 2005, from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina (see annex).

I should be grateful if the present letter could be brought to the attention of the members of the Security Council.

(*Signed*) Kofi A. **Annan**

05-26160 (E) 140305

Annex

Letter dated 8 March 2005 from the High Representative for the Implementation of the Peace Agreement on Bosnia and Herzegovina addressed to the Secretary-General

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit to the Council reports from the High Representative in accordance with annex 10 of the General Framework Agreement for Peace in Bosnia and Herzegovina and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present to you the twenty-seventh report. I would ask you kindly to submit this report to the Security Council members for their consideration.

(*Signed*) Paddy **Ashdown**

Enclosure

Twenty-seventh report of the High Representative for Implementation of the Peace Agreement on Bosnia and Herzegovina to the Secretary-General

1 July-31 December 2004

Pursuant to Security Council resolution 1031 (1995) of 15 December 1995, in which the Council requested the Secretary-General to submit to the Council reports from the High Representative in accordance with annex 10 of the Peace Agreement and the Conclusions of the London Peace Implementation Conference of 8 and 9 December 1995, I herewith present the twenty-seventh report.

Summary

1. In the tenth year of the implementation of the Dayton-Paris Peace Accords, Bosnia and Herzegovina is concentrating on meeting the requirements for membership of the NATO Partnership for Peace and satisfying the conditions required for the launch of negotiations with the European Union (EU) on a stabilization and association agreement. Almost three years after assuming my mandate as High Representative on 27 May 2002, the Office of the High Representative remains focused on ensuring that Bosnia and Herzegovina is a peaceful and viable State on course to Euro-Atlantic integration.

2. The European Commission Feasibility Study conditions for opening negotiations on a stabilization and association agreement and the requirements for entry to the NATO Partnership for Peace were the focus of political attention in the second half of 2004. The Bosnia and Herzegovina authorities made steady progress towards fulfilling the legislative requirements in the reporting period, while important structural changes in the fields of crime prevention, the judiciary, customs and taxation, the development of a single economic space and the energy market were initiated. But the main obstacle to Bosnia and Herzegovina's progress remained its failure to cooperate fully with the International Tribunal for the Former Yugoslavia.

3. Despite remarkable progress on the defence reform front (see below), placing the armed forces under State control, and fulfilling almost all the NATO reform benchmarks, in December 2004 NATO once again turned down Bosnia and Herzegovina's application to join the Partnership for Peace owing to its failure to cooperate fully with the Tribunal. The Tribunal Chief Prosecutor, Carla del Ponte, noted in her presentation to the Security Council in late 2004 that there were fundamental systemic weaknesses built into the law enforcement and security structures in Republika Srpska that hindered its cooperation with the Tribunal and needed to be addressed.

4. On 2 December 2004, NATO successfully terminated the mission of the Stabilization Force (SFOR) and the European Union launched the European Force (EUFOR) Operation Althea. This important development is covered in more detail in the main body of the report below.

5. The Office of the High Representative continued to work on building the capacities of the State Court during the second half of 2004. The Office's Rule of

Law Department supervised the recruitment of international judges and prosecutors for the special panel on organized and financial crimes within the State Court.

6. In the reporting period, the Office of the High Representative also led the way in establishing the necessary institutions for the domestic trial of war crimes in Bosnia and Herzegovina by establishing a special department for war crimes within the State Prosecutor's Office and a special chamber for war crimes within the State Court.

7. Since the adoption of the laws establishing the State Investigation and Protection Agency in July 2004, the Agency has moved steadily towards full operational capability. The special projects team of the Rule of Law Department continues to work closely with other international organizations, including the European Union Police Mission, the European Commission and the International Criminal Investigative Training Assistance Programme, on establishing the Agency as a full-fledged, State-level police agency with the resources and authority to combat organized and international crime, corruption and terrorism. In the second half of 2004, the Agency became the primary agency in Bosnia and Herzegovina responsible for compiling and analysing information from financial transactions in order to initiate appropriate criminal investigations.

8. The High Judicial and Prosecutorial Council came into being as a State-level institution on 1 May 2004. The mandate of the Independent Judicial Council was consequently terminated, but with many staff members of the Independent Judicial Council transferring to the High Judicial and Prosecutorial Council secretariat. Although the new Council has no formal relationship with the Office of the High Representative, it continued working closely with the Office's rule of law and legal departments on issues of common interest. In the reporting period, the High Judicial and Prosecutorial Council finalized the process of reappointing all judges and prosecutors at all levels in Bosnia and Herzegovina.

9. Noteworthy progress continues to be made on completing the items on the economic reform agenda presented to the Peace Implementation Council. The Bosnia and Herzegovina authorities have significantly advanced towards implementing a single set of tax rules, applicable throughout the country. The final quarter of 2004 saw remarkable success in rebalancing the budgets of the Government of Bosnia and Herzegovina. December 2004 also saw the adoption of entity budgets for 2005. Furthermore, Bosnia and Herzegovina moved closer to the establishment of a single economic space. The Office of the High Representative leadership of the Bulldozer Initiative ended at the close of 2004. Ownership of this process was transferred to the Employers' Association of Bosnia and Herzegovina (a non-governmental organization).

10. Progress in defence reform continued, with further implementation of the reforms agreed in 2003 and the fulfilment of all but 1 of the 13 technical benchmarks of NATO for entry into Partnership for Peace. The last remaining technical benchmark was the requirement for 65 per cent staffing of State defence institutions. Such staffing has proceeded slowly, but it is hoped that this benchmark will be met early in 2005. During the period under review, the downsizing of the entity armies was completed as planned. The active forces now stand at 12,000. With the end of the year, the successful role of the Organization for Security and Cooperation in Europe (OSCE) in defence reform ended, and NATO has taken over.

11. The establishment of the Intelligence and Security Agency has proceeded according to the transitional provisions set forth in the Intelligence and Security Agency Law. As a result of a review process for all employees, the staff of the Agency has been reduced, rulebooks have been drafted and approved by the Council of Ministers and the Agency has signed a comprehensive memorandum of understanding with its main law enforcement counterpart, the State Investigation and Protection Agency.

12. Responding to Prime Minister Adnan Terzić's initiative, a Police Restructuring Commission was established on 2 July 2004 with a mandate to propose "a single structure of policing for Bosnia and Herzegovina". The Commission delivered its report on 14 January 2005, recommending that policing in Bosnia and Herzegovina should be an exclusive competence of the State, including legislative and budgetary competence. Implementation of the recommendations made on the report will be a major priority for 2005. Significant progress in police restructuring is a condition for Bosnia and Herzegovina to move forward in the EU stabilization and association process.

13. During the reporting period, the Office of the High Representative, in close cooperation with the local authorities, stepped up its efforts to enhance the functioning of the Council of Ministers — which is another EU Feasibility Study requirement. On 24 September 2004, Prime Minister Terzić submitted a joint action plan for staffing and premises to the Peace Implementation Council and pledged his commitment to it.

14. Significant progress has been achieved in unifying the city of Mostar. The imposition of the outstanding elements of the Statute in January 2004 set in train a process that is putting an end to the parallel structures and segregation that has prevailed in that city since the war. The City Council elected in October chose a moderate Croat as the first mayor of a unified Mostar. Furthermore progress has been made in joining ethnically divided institutions, and a degree of cooperation between the moderate majorities of the main political parties has started to emerge. In the reporting period, the new mayor started appointing a multi-ethnic, unified city administration and there is clear majority support in the City Council and among the community as a whole to press on with the unification process.

15. In the reporting period, Bosnia and Herzegovina marked the return of the 1 millionth refugee. The Bosnia and Herzegovina authorities successfully assumed responsibility for the implementation of annex VII. The State Ministry has been successful in securing loans from financial institutions such as Council of Europe Development Bank and the Organization of the Petroleum Exporting Countries (OPEC), while the Bosnia and Herzegovina State Commission for Refugees and Displaced Persons continued to act as the main coordinating body between the State, the entities and Brcko District.

16. Significant progress in implementing the mission implementation plan and the core tasks of the Office of the High Representative has been achieved during the reporting period, while two critical mileposts — membership in the NATO Partnership for Peace and the launch of the stabilization and association agreement negotiations with EU — are within reach. Of 26 programmes, 4 have been completed. The updated mission implementation plan document can be found on the Office of the High Representative web site www.ohr.int.

I. Introduction

17. This is my fifth report to the Secretary-General since taking over as High Representative on 27 May 2002. The report assesses progress made towards attaining the goals outlined in previous reports, as well as reviewing developments during the reporting period.

II. Political update and core reforms

18. The reporting period saw the first municipal elections to be administered wholly by local institutions, in October 2004. In the Federation, nationalists and moderates held their positions, but all three parties whose support mainly comes from the Bosniak community lost votes owing to low turnout.

19. The electoral competition in Croat-majority areas seems to have changed little, with the notable exception of a local strong challenge to the dominant Croatian Democratic Union (HDZ), in western Herzegovina.

20. Despite the necessity of rerunning the elections in Zvornik municipality, the elections in the Republika Srpska passed off peaceably. These elections showed further gains for the Independent Social Democratic Party (SNSD) and a further erosion of Serbian Democratic Party (SDS) pre-eminence in Republika Srpska politics.

21. Across both entities, and irrespective of ethnicity, the direct election of mayors saw a higher vote for the individual candidate than for the party.

22. Over the latter few months of 2004, there were some signs that Republika Srpska leaders had finally grasped that cooperation with the International Tribunal for the Former Yugoslavia was not an obligation that could be avoided, and which would not diminish over time.

23. In late October the Republika Srpska government adopted the Srebrenica Commission's final report. It acknowledged the magnitude of the crimes committed and provided additional details regarding the war crimes committed in and around Srebrenica in July 1995. Republika Srpska President Cavic expressed the hope that the entity's ability to look hard at its own painful past would lead others to do so as well. The international community welcomed the step by the Republika Srpska authorities and endorsed both the report's and President Cavic's demand that those guilty of war crimes should be brought to justice.

24. In addition, Republika Srpska Special Police arrested eight Bosnian Serbs on suspicion of war crimes. The warrant was issued by the Sarajevo Cantonal Court (these were not International Tribunal for the Former Yugoslavia indictees). However, despite these welcome developments, by the beginning of December 2004, Bosnia and Herzegovina was still not cooperating fully with the Tribunal — in the eyes of either the Chief Prosecutor of the Tribunal herself or in those of NATO. Bosnia and Herzegovina therefore failed for a second time in a year to qualify for membership of the NATO Partnership for Peace.

25. As a result, on 16 December, the Office of the High Representative, together with EUFOR and the United States, announced a series of further sanctions designed to penalize the failure of the Republika Srpska in particular to meet its

International Tribunal for the Former Yugoslavia obligations and to address some of the systemic failures in its security and law enforcement structures that perpetuate this continuing failure to cooperate fully with the Tribunal. Among eight specific measures, the High Representative removed nine officials and blocked the bank accounts of others suspected of abetting Tribunal fugitives, ordered the Republika Srpska government to find out if people named in the Srebrenica report were still in government service, and asked that defence reform should be accelerated through the early closure of the entities' ministries of defence. He also required that police restructuring be implemented in line with the principles outlined in the Police Restructuring Commission report and endorsed by the European Commission.

26. In the wake of this package of measures — both the Office of the High Representative and bilateral — the Party of Democratic Progress (PDP) ministers at the Republika Srpska and State level chose to submit their resignations. But the business of government largely continued unaffected. Complex and sensitive laws on sales and excise taxes, for example, completed their passage through Parliament in the last week of December, unaffected by the political turbulence. In response to the resignations, Republika Srpska President Dragan Cavic convened talks with all Serb-dominated parties on the way forward, and in late December the heads of six Serb-based parties signed an agreement, that, inter alia, confirmed the Republika Srpska's commitment to tackling the Tribunal issue. At the end of the reporting period, the developments were still playing themselves out: but there was little indication that there would be a significant effect on the implementation of the reform agenda — either in the Republika Srpska or at the Bosnia and Herzegovina level.

27. In the autumn, Prime Minister Terzić had offered his resignation over the Bosnia and Herzegovina Parliament's failure to adopt a government proposal on the value added tax (VAT) rate. It was not accepted and, in early January, the Parliament passed laws that will enact a State-level, single-rate VAT system that will come into effect by January 2006 at the latest.

28. Four years ago, Wolfgang Petritsch imposed a decision integrating the municipalities of Zepce and Gornji Vakuf/Uskoplje. This put an end to years of lawlessness and illegal parallel structures, a legacy of the Bosniak-Croat war there. Considering the level of progress achieved in the process of integrating municipal services and community life in both municipalities, the High Representative amended the municipality's statutes. Both decisions brought the municipalities of Zepce and Gornji Vakuf/Uskoplje into the administrative mainstream of Bosnia and Herzegovina and effectively ended the supervisory engagement of the Office of the High Representative.

III. The European Community feasibility study requirements

29. The European Community feasibility study requirements became increasingly dominant in the Bosnia and Herzegovina political environment during the reporting period. Considerable progress in adopting legislation required by the study has been made. The Bosnia and Herzegovina Parliament fully enacted 20 laws, many of which introduced significant structural reforms, such as tightening fiscal policies and budget control, setting up a State-level Phytosanitary Administration,

strengthening market standards, introducing effective and transparent public procurement and reforms in the fields of the judiciary and police.

30. The Office of the High Representative, with the European Commission and the EU Customs and Fiscal Assistance Office, invested heavily in ongoing support for the Indirect Taxation Administration. The Authority moved to permanent premises; the 2004 budget disbursement was started through the Bosnia and Herzegovina Ministry of Treasury and Finance started; the head office and regional customs centres became operational; and VAT development teams were recruited directly into the Authority. For the first time since Dayton, new revenue distribution arrangements (customs revenues and most excise and sales tax revenues) have been launched. The State started to be funded by the entities directly from a single account, rather than through the monthly transfer arrangement. The past six months have seen considerable fiscal adjustments in Bosnia and Herzegovina, but further measures will be needed to eliminate the Government's dependence on external budgetary support.

31. The laying of the foundations for a VAT system in Bosnia and Herzegovina has been one of the most significant fiscal reforms in recent years, establishing a more effective taxation system and securing stable funding for a growing number of State institutions, in addition to helping create a single economic space across the country.

IV. Inculcating the rule of law

32. The Office of the High Representative continued to work on building the capacities of the State Court during the second half of 2004. The Office's Rule of Law Department supervised the recruitment of international judges and prosecutors for the special panel on organized and financial crimes within the State Court.

33. The Rule of Law Pillar was dissolved on 1 October 2004. It was replaced by a substantially reduced Rule of Law Department. At its peak, the rule of law pillar included over 200 personnel. The new department has approximately 70 staff.

34. Efforts to develop a sound anti-money-laundering programme have proceeded. After the adoption of the new Law on the Prevention of Money Laundering and the establishment of the State Investigation and Protection Agency's Financial Intelligence Department, the Agency became the primary body in Bosnia and Herzegovina responsible for compiling and analysing information from financial transactions in order to initiate appropriate criminal investigations.

35. The Anti-Crime and Corruption Unit of the Office of the High Representative has had to adapt to the development of the State Court and the State Prosecutor's Office. The arrival of international judges and prosecutors has meant that the prime responsibility for investigating, prosecuting and trying most major cases of organized crime and corruption has shifted to these new bodies. In addition, the adoption of new criminal procedure codes at the State and entity levels meant that prosecutors, rather than judges or police officers, were leading investigations.

36. The Anti-Crime and Corruption Unit also sought to facilitate the international agreements necessary to forge cooperation between and among the enforcement agencies, prosecutors and courts in Bosnia and Herzegovina, as well as their counterparts abroad.

37. The special projects team of the Rule of Law Department continues to work closely with other international organizations, including the European Union Police Mission, the European Commission and the International Criminal Investigative Training Assistance Programme, on establishing the State Investigation and Protection Agency as a full-fledged, State-level police agency with the resources and authority to combat organized and international crime, corruption and terrorism. Since the adoption of the laws establishing it in July 2004, the Agency has moved towards full operability.

38. The process of reappointing all judges and prosecutors at all levels in Bosnia and Herzegovina required a massive effort. Almost 1,000 vacancies were advertised. Over 1,700 applications were received and reviewed. Candidates were vetted in a procedure that included thorough background investigations. More than 900 candidates were interviewed. The result was the appointment (or reappointment) of 877 judges and prosecutors.

39. The Disciplinary Prosecutor received cases against over 150 judges and prosecutors. A number of disciplinary hearings were held, though some judges and prosecutors opted to resign before the cases against them could be heard. Sanctions were imposed in 14 cases of established judicial misconduct.

V. War crimes chamber

40. The establishment of the War Crimes Chamber within the Court of Bosnia and Herzegovina in 2004 ensured the effective and independent prosecution of individuals accused of war crimes and organized crimes through its own judicial system. It thus strengthened the capacity of Bosnia and Herzegovina to uphold the rule of law. The Registry Office in the special Chamber of the Court of Bosnia and Herzegovina and the Special Department in the Prosecutor Office of Bosnia and Herzegovina became operational in January 2005. The Registry Office is responsible for the management and administration of the war crimes project (including the administration of the Registry, the Special Chamber and the Special Department). It ensures that the court is not subject to undue influence or pressure. Maximum-security prison facilities for pre-trial and post-conviction detention have been established.

41. The first group of judges and prosecutors have been appointed by the High Representative upon the joint recommendation of the President of the High Judicial and Prosecutorial Council, the President of the Court of Bosnia and Herzegovina or the Chief Prosecutor, respectively, and the Registrar. The Registry is now an independent entity and, with these appointments, it is capable of fulfilling the mandate conferred upon it by the International Agreement on the Establishment of the Registry — as contemplated by the Peace Implementation Council and the participants at the Donors Conference in October 2003.

42. The Registry is currently providing support to the President of the Court of Bosnia and Herzegovina, the Chief Prosecutor and the Minister of Justice of Bosnia and Herzegovina in many core functions. The Registry was to officially begin court management services at the court facility on 31 January 2005 for both the organized crime and war crimes dockets. The high security detention unit available for both dockets has been completed and is being handed over to the Minister of Justice for operation under the guidance of international experts. The International Tribunal for

the Former Yugoslavia is expected soon to transfer the first war crimes case. Six major organized crime cases are currently pending in the Court, with many more in the investigative phase.

VI. Reforming the economy

43. Notable progress continues to be made in completing the items on the economic reform agenda presented to the Peace Implementation Council.

44. During the reporting period, the Bosnia and Herzegovina authorities made significant strides towards implementing a single set of tax rules, applicable throughout the country. In December, State-level laws on sales and excise taxation were passed. For the first time since the end of the war in 1995, the same indirect tax rates, rules, enforcement regulations and collection system will operate across the whole country. At the same time, the problem of double taxation within the territory of Bosnia and Herzegovina (a major disincentive to investment and job creation) was abolished. The passage of the Single Account Law has meant that all customs tariffs, excise and sales tax revenues have flowed into a single account since 1 January 2005. This not only paves the way for the smooth introduction of VAT in January 2006, but also provides for a more stable means of financing the State Government.

45. The final quarter of 2004 witnessed remarkable success in rebalancing the budgets of the Government of Bosnia and Herzegovina. December also saw the adoption of entity budgets for 2005. The new budgetary arrangements for 2005 will mean that the bulk of public revenues are collected into a single account before being apportioned in accordance with the State and entity finance ministers' agreement concluded in December with approval of the International Monetary Fund.

46. Furthermore, important steps have been taken to complete the establishment of a single economic space and create a level playing field for all businesses. The State-level Law on Public Procurement was enacted in late 2004, following the adoption of the Framework Law on Business Registration (which aims to introduce a faster, more transparent and more uniform, system for registering a business in the country). The new Bosnia and Herzegovina Law on Accounting and Auditing will, inter alia, put in place a uniform set of international accounting and auditing standards.

47. Advances in the longstanding efforts to reform and restructure the transport sector have had mixed success. Although civil aviation is witnessing remarkable progress, circumstances beyond the control of Bosnia and Herzegovina authorities and the Office of the High Representative limit room for possible improvement. Thus, the Bosnia and Herzegovina civil aviation sector annually loses millions of marka in overflight fees, owing to the continued closure of Kosovo air space, even though normalization of air traffic in the region would be easy to achieve. However, political deadlock over the final status of Kosovo and lack of political will among the various governing structures in the province have prevented this issue from being satisfactorily resolved for the benefit of the whole region.

48. Ever since the war-induced disruptions in Bosnia and Herzegovina, the European electricity sector was divided into two grids, with the border running

through Bosnia and Herzegovina. On 10 October, the two grids were finally reconnected. Physical reconstruction and institutional reform in Bosnia and Herzegovina meant that the largest synchronous electricity supply zone in the world has now been created as a result of those efforts.

49. The Office of the High Representative leadership of the Bulldozer Initiative ended at the close of 2004. Ownership of this process was transferred to the Employers' Association of Bosnia and Herzegovina.

50. The Office of the High Representative also assisted in the launch of the State Veterinary Border Inspection Service in November. This promises to improve opportunities for Bosnia and Herzegovina producers to export their agricultural products. Given that a significant proportion of Bosnia and Herzegovina citizens' livelihoods depends on farming and food processing, the most recent efforts illustrate useful progress in an area that has lacked political attention and focus. The economic implications of improvements in the area should not be underestimated, especially in view of aspirations of Bosnia and Herzegovina to EU membership.

51. Having noted alarming patterns of mismanagement, incompetence and political manipulation within the publicly owned companies in Republika Srpska, in December the Office of the High Representative amended the relevant legislation, thus requiring special audits of such companies to be conducted by the Republika Srpska Auditor General. In response, the entity governments committed themselves to implementing reforms aimed at improving management practices and eliminating endemic corruption in the public sector. The passage of the Bosnia and Herzegovina Law on Public Procurement in September will put in place uniform procurement regulations for all levels of government in Bosnia and Herzegovina. The law is in line with the EU *acquis communautaire* and establishes a mechanism that will allow for effective supervision of public procurement, greater accountability and better budgetary control.

VII. Strengthening the State Government

52. During the reporting period, the Office of the High Representative, in close cooperation with the local authorities, stepped up efforts to enhance the functioning of the Council of Ministers — which is a feasibility study requirement. On 24 September 2004, Prime Minister Terzić submitted a joint action plan for staffing and premises to the Peace Implementation Council and pledged his commitment to it. The aim of the plan is to increase the level of staffing and the space available for State ministries, so boosting institutional capacity. To that end, the plan stipulated the establishment of a commission for premises management, a commission for public assets and amendments to the State Civil Service Law, including a set of timelines for required actions. Until the end of the reporting period, however, progress was extremely slow.

VIII. Public administration and civil service reform

53. Public administration reform continued in the reporting period. The European Commission reviews of Bosnia and Herzegovina's public sector have not yet been completed. Once all review reports are in, a comprehensive strategy for improving Bosnia and Herzegovina's public administration will follow. In order to underline

the importance of this project, in October 2004 the office of the public administration reform coordinator was moved to the office of the Prime Minister, who is in charge of the overall reform process.

IX. Police reform

54. Responding to Prime Minister Terzić's initiative, a Police Restructuring Commission was established on 5 July 2004 with a mandate to propose a single structure of policing for Bosnia and Herzegovina under the overall political oversight of a ministry or ministries in the Council of Ministers. Significant progress in police restructuring is an EU feasibility study condition. The Commission was guided by EU best practices. It focused primarily on establishing a single structure of policing with competency vested at the State level but operating in functional areas based on technical policing criteria. The Commission held numerous meetings at various locations from July to mid-December, and the final report was submitted by the Chair of the Commission, Wilfried Martens, to the High Representative and the Prime Minister early in 2005. The report recommends that policing should be an exclusive competence of the State in Bosnia and Herzegovina, including legislative and budgetary authority.

X. Defence reform

55. Progress in defence reform continued, with further implementation of the many reforms agreed in 2003 and the fulfilment of all but 1 of the 13 technical benchmarks of NATO for entry into the Partnership for Peace.

56. The remaining technical benchmarks for defence reform were met in the second half of 2004, except for the one requiring 65 per cent staffing of the State defence institutions. Staffing has proceeded slowly, but there is scope for this benchmark soon to be met.

57. During the review period, the downsizing of the entity armies was completed as provided for in the Bosnia and Herzegovina Presidency's decision of March 2004 on the size and structure of the armed forces of Bosnia and Herzegovina. The active forces now total 12,000. Agreement was reached on the locations of State defence institutions. Additionally, doctrine, policy and procedures were agreed for command and control. A newly established State Ceremonial Unit made its first public appearance at the SFOR-EUFOR transfer of authority on 2 December. Its members wore the same shoulder patches and carried the same rifles.

58. The Joint Personnel Commission completed its report. Concepts were agreed for a military intelligence branch within the armed forces of Bosnia and Herzegovina, as well as a State demining cell. A moratorium on the sale of surplus small arms and light weapons was set; a technical survey and a pilot programme for the destruction of surplus arms and ammunition were completed; and a plan to reduce substantially the number of ammunition storage sites was drafted. The first Bosnia and Herzegovina State-level Minister of Defence, Nikola Radovanovic, in office since April 2004, played an important and constructive role in driving the reform forward. The Parliamentary Assembly continued to take its oversight role seriously.

59. Nonetheless, the failure of Bosnia and Herzegovina to cooperate fully with the International Tribunal for the Former Yugoslavia prevented NATO from extending an invitation at its meeting in Brussels on 8 and 9 December. The Alliance reiterated its "no" from the June 2004 Istanbul summit, expressing deep concern at the most recent assessment offered to the Security Council by the Chief Prosecutor. NATO foreign ministers underlined once again that Bosnia and Herzegovina and its neighbours must cooperate fully with the Tribunal, including bringing to justice all those indicted by the Tribunal, but noted that Bosnia and Herzegovina would be welcome in Partnership for Peace once it had met the established conditions.

60. The measures announced on 16 December 2004, followed by the 31 December decision of the High Representative extending and adjusting the mandate of the Defence Reform Commission, set an ambitious defence reform agenda for 2005. The transfer of the remaining entity competencies in the defence field to the State level will be accelerated. The austere budgets for the Bosnia and Herzegovina defence establishment in 2005 will make these efforts additionally demanding but, at the same time, the diminishing resources available underline the need for bold decisions. The goal remains clear: to create a modern and affordable defence system that has the confidence of all citizens of Bosnia and Herzegovina, under full and unambiguous State-level command and control, and can achieve the goal of Partnership for Peace membership that Bosnia and Herzegovina has set for itself.

61. The turn of the year marked the successful end of the OSCE leading role in defence reform. In what is a natural and positive development, NATO has now taken over, although OSCE will continue to provide valuable support for some time to come.

XI. Intelligence reform

62. Since the formal establishment of the Intelligence and Security Agency on 1 June 2004, the physical and organizational unification of the two former entity intelligence services has proceeded according to the transitional provisions set out in the Law on the Intelligence and Security Agency. As a result of a review process of all employees, the staff of the Agency was cut by 307 persons by the start of 2005. Those who failed to meet the criteria for employment will receive severance packages. The review process was conducted in a procedurally sound manner. The leadership has since appointed a new middle management, with due sensitivity to ethnic balance.

63. Various rulebooks have been drafted by the Intelligence and Security Agency and approved by the Council of Ministers over the last six months. The Agency has signed a comprehensive memorandum of understanding with its main law enforcement counterpart, State Investigation and Protection Agency. A draft memorandum of understanding regulating the cooperation and coordination with the Military Intelligence Branch of the Armed Forces of Bosnia and Herzegovina is also under way. Additional steps to regulate and develop the role of the Intelligence and Security Agency in Bosnia and Herzegovina's "intelligence community" have been taken by the Director-General. This proactive role of the Agency is a welcome sign.

64. The leadership of the Intelligence and Security Agency has taken its responsibilities seriously. Cooperation between the Director-General, his Deputy

and the Inspector General has gradually improved, and their tasks and responsibilities are divided according to the provisions of the law.

65. It is also worth noting that the members of the Security and Intelligence Committee of the Bosnia and Herzegovina Parliamentary Assembly have increasingly fulfilled their important role of providing parliamentary oversight. Though gradually improving, the role of the executive could be more proactive. It is of vital importance that the Intelligence and Security Agency is supervised and given appropriate political guidance in its work.

66. In order to continue the progress, the mandate of Ambassador Kalman Kocsis as Supervisor has been extended for a period of six months, until the end of June 2005. Ambassador Kocsis will oversee the consolidation of the reform.

XII. SFOR handover to EUFOR

67. On 9 July 2004, the Security Council welcomed the EU intention to launch a military mission from December 2004. On 12 July 2004, the European Council issued its decision to replace the NATO mission with an EU-led peacekeeping force (EUFOR). On 11 October 2004, the General Affairs and External Relations Council approved the operational plan for Operation Althea, the largest European-led military operation so far.

68. With the handover from SFOR to EUFOR on 2 December 2004, the first NATO peacekeeping mission, launched as IFOR in December 1995, was brought to a successful end. At the same time, the continued long-term commitment of NATO to the future development of Bosnia and Herzegovina was marked by the opening of a new NATO Headquarters in Sarajevo.

69. EU and NATO planners worked closely in the months leading up to the transfer of authority. The shared objective, a "seamless transition", was achieved. EUFOR operates with approximately the same force size, the same task force structure and the same basic mandate, resources and commitment to ensure peace and stability in Bosnia and Herzegovina as did SFOR. But EUFOR is also a vital additional part of the EU family. A comprehensive approach has been established towards Bosnia and Herzegovina. EUFOR works in unison with the HR/EUSR, European Union Police Mission, the European Union Monitoring Mission and the European Commission's assistance programmes to support both the stabilization and association process and mission implementation plan of the Office of the High Representative. As such, EUFOR buttresses the EU integrated efforts in Bosnia and Herzegovina and helps enable the country to progress towards EU integration by its own efforts.

70. For Bosnia and Herzegovina, the launch of Operation Althea marks the beginning of a new phase in its recovery — its transition from the era of Dayton to the era of Brussels. EUFOR will contribute to the long-term objective of a stable, viable, peaceful and multinational Bosnia and Herzegovina, cooperating peacefully with its neighbours and irreversibly on track towards EU membership.

71. EUFOR has the main peace stabilization role and monitors the implementation of the military aspects of the General Framework Agreement for Peace. It successfully undertook its first major operation, conducting inspections of military facilities throughout the country, in the days before Christmas 2004. One aspect in

which it differs from SFOR is that it has an explicit mandate to provide support in the fight against organized crime, in order to strengthen the safe and secure environment and help Bosnia and Herzegovina progress towards a self-governing and self-policing capacity.

XIII. Mostar

72. Unification of the city of Mostar has proceeded relatively well, given the complexity of the process and the efforts of some hardliners to block progress. A compromise city budget was eventually adopted by the City Council in mid-2004. Some success has been made in joining divided institutions and a degree of cooperation between the moderate majorities of the main political parties has started to emerge. The opening of the rebuilt Old Bridge on 23 July 2004, in the presence of many dignitaries, cast the world's spotlight on Mostar and helped further to normalize the atmosphere in the city. The post-war internal ethnic boundaries are gradually starting to lose their significance, as increasing numbers of citizens travel, socialize, work and live more freely throughout Mostar.

73. The October elections produced no clear majority in the Council. After extensive power-sharing negotiations, a Croat mayor was finally elected with an element of cross-party and cross-ethnic support — a development that would have been almost unthinkable before the statute was imposed a year ago. The new mayor has started to appoint a multi-ethnic city administration applying the European standards of the new Civil Service Law. There is clear majority support among the Council and community as a whole to press on with the unification process.

74. However, the political situation is still fragile and potentially volatile, and much of the technical process of unification has still to be completed. For that reason a small international team remains for the time being to assist the mayor and the Council. Nonetheless, although progress has been somewhat slower than expected, the unification process in Mostar remains on track.

XIV. Bosnia and Herzegovina and the region

75. Bosnia and Herzegovina has continued to pursue its policy of good-neighbourly relations and active regional cooperation.

76. The growing international pressure on Serbia and Montenegro and Republika Srpska to cooperate with the Tribunal has reinforced the crucial need for cooperation on both sides of the border.

77. The reporting period was marked by a high profile visit by Serbian President Boris Tadic to Bosnia and Herzegovina, during which he offered his apologies "for those who committed crimes in the name of the Serb people" during the war. In the course of this visit, the members of the Bosnia and Herzegovina presidency and the Serbian President officially agreed that their countries' common goal was membership in EU and the Partnership for Peace.

78. In Croatia, the re-election of President Mesic is expected to contribute positively to continuity and stability in both Bosnia and Herzegovina and the region. This election afforded an opportunity to return to the long-standing issue of double citizenship and the related issue of dual voting rights for Bosnia and Herzegovina

Croats. The ongoing constructive dialogue surrounding this question is a sign that normalization between the two countries is moving ahead.

79. Bosnia and Herzegovina's successful presidency of the South-East European Cooperation Process, including the first meeting of defence ministers from the region, demonstrated both the capacity of Bosnia and Herzegovina to play a valuable political role at the regional level and the utility of the Process as an inter-State forum.

XV. Returns of refugees and displaced persons

80. The reporting period saw the return home of the 1 millionth refugee in Bosnia and Herzegovina — a significant milestone in the return process since the Dayton-Paris Peace Accords.

81. The Bosnia and Herzegovina authorities successfully assumed responsibility for annex VII implementation at the beginning of 2004. Since then, the State authorities have proved they are taking this responsibility seriously. In November 2004, the Office of the High Representative closed its small unit that monitored returns.

82. The rate of property law implementation, a vital pre-condition for return, has continued to climb. It had been hoped that this process would be finished by now but Banja Luka continues to lag behind. All other municipalities in Bosnia and Herzegovina have finished the job. We now expect an end date around April 2005.

83. The Bosnia and Herzegovina State Commission for Refugees and Displaced Persons, which the Office of the High Representative attends as an observer, continues to act as the main coordinating body between the State, the entities and Brcko District. The State ministry has secured loans from the Council of Europe Development Bank and OPEC, which have provided an early indicator of success.

84. Furthermore, a return fund has been established. Although the State, Brcko and Republika Srpska have transferred their financial commitments, the Federation has been tardy in doing so. However, with loans secured for 2005, we are confident that the State ministry and the State Commission for Refugees and Displaced Persons will have sufficient means to implement their returns policy.

85. The Republika Srpska has still not harmonized its entity legislation with the State Law on Refugees and Displaced Persons. A public debate has been taking place, which should contribute both to the draft Republika Srpska law and its eventual passage.

86. The transfer of responsibilities from the Commission for Real Property Claims to the Bosnia and Herzegovina authorities was completed during the reporting period. A body charged with reconsidering Commission decisions was established, and commissioners appointed. This Commission is set to meet regularly throughout 2005.

XVI. European Union Police Mission

87. During the past six months, the State-level Ministry of Security has achieved notable progress in recruiting staff and establishing internal departments covering its areas of responsibility. The Minister of Security has taken over the chairmanship of the Ministerial Consultative Meeting on Police Matters — originally established by the United Nations Mission in Bosnia and Herzegovina/International Police Task Force, through which he coordinates and oversees the political aspects of all the State-level police agencies. In the past six months, a series of important new laws was drafted and adopted, particularly a law that creates and regulates a new immigration service, an updated law governing the working of the State Border Service, and a Law on police officials.

88. The State Investigation and Protection Agency is now established in temporary accommodation in Sarajevo. Planning is under way to secure permanent facilities. The legal framework and books of rules by which the Agency operates have been established. Two regional offices were also set up, with a total of 279 police officers recruited to date. Most of the heads of the various State Investigation and Protection Agency departments have been appointed, and the Criminal Investigation Department has begun conducting investigations. An Interface Cell for Criminal Intelligence has been formed as the conduit and focal point for the input of intelligence from international stakeholders. The Interface Cell for Criminal Intelligence is entirely staffed by EU Police Mission officers who will later hand over the running of the cell to State Investigation and Protection Agency officers. The EU Police Mission has provided advice at all stages leading up to the introduction of new laws on surveillance of the State border and the State Border Service, which bring together and update the legislation underpinning the Agency and its work. The structure, including command, rank and organizational aspects, have been brought into line with the other State-level agencies, and the procedures and powers given to police officers on the border are now clearer and more effective.

89. To help achieve financial viability and sustainability by local police, the EU Police Mission has made progress in developing local capacity in regard to setting salary scales, budget planning for organizational units, revising maintenance costs of premises, rationalization of the use of police equipment, control over inventories and payrolls, and general budget implementation and management. Staff at the Bosnia and Herzegovina and Republika Srpska Ministries of Interior were trained in handling budgets at the local level, in particular in matching operational planning and budget management.

90. The EU Police Mission was fully engaged in the police restructuring process, and the EU Police Mission Head of Mission served as a full member of the Police Restructuring Commission. Furthermore, the Mission seconded personnel to the Commission's secretariat. The Mission also set up a police restructuring working group to represent the views of the EU Police Mission to the Commission and to provide technical expertise.

XVII. Police certification

91. With regard to the problems faced in relation to the certification process conducted by the United Nations International Police Task Force during its mandate in Bosnia and Herzegovina, the Presidency of Bosnia and Herzegovina requested, following the statement issued by the President of the Security Council on 25 June 2004, all competent Bosnia and Herzegovina authorities to harmonize their laws in order to give full effect to the United Nations certification decisions. We expect the authorities of Bosnia and Herzegovina to adopt such amendments.

92. With respect to the need to identify a solution regarding allegations of specific problematic cases, the Human Rights Commission within the Constitutional Court of Bosnia and Herzegovina rendered a decision in mid-2004 making it clear that the implementation of the United Nations certification decisions by domestic authorities did not violate the rights of police officers under the European Convention on Human Rights. The need to review all United Nations decisions on questions of law and fact can be now measured against this decision. However, there are still daily allegations of procedural shortcomings, examples of which have been sent to the Office of the High Representative by another United Nations agency in Bosnia and Herzegovina. The domestic authorities have recently requested the Venice Commission of the Council of Europe to examine potential solutions to address such problematic cases within the framework of Bosnia and Herzegovina's international obligations. The opinion of the Venice Commission is scheduled to be adopted in March 2005.

XVIII. Media development

93. During the reporting period, reform of the public broadcasting system encountered some serious obstacles. The Bosnia and Herzegovina Parliament failed to adopt the relevant public broadcasting legislation necessary to bring Bosnia and Herzegovina into compliance with the EU feasibility study requirements — to create a single, self-sustainable public broadcasting system where constituent broadcasters share a common infrastructure. This failure occurred because Republika Srpska delegates in the Bosnia and Herzegovina Parliament opposed the amendments that would allow for the creation of a sound common resource corporation. In addition, HDZ members pushed for the establishment of three separate "national" channels in addition to the two existing entity broadcasters, which was clearly against the requirements of the feasibility study and the Dayton-Paris Peace Accords.

94. The Office of the High Representative, along with the European Commission, managed to renegotiate the obstructive positions of the relevant parties. The outstanding issues were adequately resolved, and the new draft public broadcasting legislation now awaits adoption in the Council of Ministers.

95. The State-wide television service that was launched in August has been well accepted in both entities and is now in the process of tuning its programme orientation to address the challenges of the broadcasting market.

XIX. Mission implementation plan

96. Much progress has been made during the reporting period towards reaching two crucial milestones: membership in Partnership for Peace and the opening of negotiations on a stabilization and association agreement.

97. The 2004 mission implementation plan contained four core tasks made up of 26 programmes comprising 248 items. Progress during the calendar year 2004 included a number of major breakthroughs, including the establishment of the Indirect Tax Authority Governing Board, the State Ministry of Defence, the State Intelligence and Security Agency, the unification of Mostar, and progress in regulating the entities' internal debts.

98. Of 26 programmes, 4 were completed, including the State Management of Identity Documents, the Parliamentary Oversight over the Armed Forces and the Security Policy. Of the total of 230 detailed programme items, 116 (or 50 per cent) were completed by the end of the year.

99. In the light of these developments, the 2005 mission implementation plan submitted to the Peace Implementation Council contains 108 items to be completed, out of which 102 items are due to be completed by the end of 2005. A further six items (five by February and one by December) were expected to continue into 2006. By the end of 2005, only two programmes are expected to have outstanding items: reshape Bosnia and Herzegovina criminal law enforcement landscape and public broadcasting.

100. Deletions that have been made are linked to the establishment of local institutions (such as the High Judicial and Prosecutorial Council) that took over the implementation of reforms. These were changes in strategy (termination of the intergovernmental task force on public administration strategy), specific steps or actions which were no longer foreseen (e.g., a State-level law on local self government, which was abandoned), and engagement of other international agencies that were better equipped to move technical reforms forward (such as the United States Agency for International Development on municipal reform).

XX. Reporting schedule

101. In keeping with my proposal to submit regular reports for onward transmission to the Security Council, as required by Security Council resolution 1031 (1995), I plan to send my next report in August 2005. That report will cover the period from 1 January until 30 June 2005. My aim is that subsequent reports should also cover six-month periods. Should you or any Council member require information at any other time, I should be only too pleased to provide a written update.